Module 5: Free Trade Agreements

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Free Trade Agreements

- A free trade agreement is an agreement between two or more nations to reduce barriers to imports and exports among them.
- It is the opposite of trade protectionism

Advantages	Disadvantages
• Increased economic growth • Lower government spending • Technology transfer	• Increased job outsourcing • Poor working conditions • Degradation of natural resources

Key Takeaways

- Free trade agreements are contracts between countries to allow access to their markets.
- FTAS can force local industries to become more competitive and rely less on government subsidies.
- They can open new markets, increase GDP, and invite new investments.
- FTAS can open up a country to degrade natural resources, loss of traditional livelihoods, and local employment issues.
- Countries must balance the domestic benefits of free trade agreements with their consequences.

3 Kinds of Free Trade Agreements

1. **Unilateral** - Are one-sided arrangements that a country makes to lower trade barriers for other countries.
   Example: Generalized System of Preference

2. **Bilateral** - Are agreements between two countries to lower trade barriers with each other.
   Example: Philippine-Japan Economic Partnership Agreement

3. **Multilateral** - Are agreements between multiple countries to lower trade barriers with one another.
   Example: ASEAN Trade in Goods Agreement (ATIGA)

ASEAN Free Trade Area (AFTA)

- The ASEAN Free Trade Area (AFTA) is a trade agreement between the member countries of the Association of Southeast Asian Nations (ASEAN). It aims to eliminate tariffs and other trade barriers between ASEAN member countries, creating a single market for goods and services.

History

- Trade bloc agreement among the six original members of ASEAN (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.)
- First proposed by then Thai Prime Minister Anand Panyarachun at the 24th ASEAN ministerial meeting held in Bangkok in July 1991.
- In January 28,1992, ASEAN leaders signed the AFTA
- ASEAN members had to commit to establish a free trade area by 2008 by means of a Common Effective Preferential Tariff (CEPT) scheme
- The initial target was to achieve free trade by 2008, but was accelerated to 2003.

Common Effective Preferential Tariff Scheme (CEPT Scheme)

- The main mechanism for AFTA
- A cooperative arrangement among ASEAN Member States that would reduce intra- regional tariffs and remove non-tariff barriers.

Here is a timeline of the key events in the history of AFTA:

- 1967: ASEAN is established
- 1980s: ASEAN begins to focus on economic cooperation.
- 1992: The AFTA agreement is signed.
- 2003: AFTA is officially launched.
- 2008: The target date for achieving a free trade area is accelerated to 2003.
- 2015: The ASEAN Economic Community is launched.

Goals and Objectives

- Create a single market and an international production base
- Increase intra-ASEAN trade and investment
- Enhance regional competitiveness
- Attract foreign direct investments.
- Foster regional cooperation and Integration
- Improve living standards

Advantages	Disadvantages
• Increased trade • Economic growth • Attracting foreign investment • Specialization and efficiency • Improved living standards • Poverty reduction • Regional cooperation • Cultural exchange	• Uneven distribution of benefits: • Job losses in certain sectors • Increased income inequality • Dependence on foreign trade • Environmental concerns

3 Agreements that makeup AFTA

1. ASEAN Trade in Goods Agreement (ATIGA) - Eliminates tariffs for most products and enables efficient back-to-back shipments among its members.
2. ASEAN Framework Agreement on Services (AFAS) - Promotes a more stable operating environment for service providers and protects market access.
3. 3. ASEAN Comprehensive Investment Agreement (ACIA) - Safeguards ASEAN investments and investors

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ASEAN Plus Six

- For the “ASEAN + 6” is a grouping of 16 countries comprising the 10 ASEAN member countries are Brunei Darussalam, Burma, Cambodia, Indonesia, Philippines, Malaysia, Laos, Singapore, Thailand and Vietnam. the other six countries outside ASEAN countries are China, Japan, South Korea, Australia, New Zealand and India, the women in this group are found to ASEAN + 6, with a combined population of over three billion people, or about 50%. the population of the world ever

History

- At the second East Asia Summit (EAS) held on 15 January 2007 in Cebu, the Leaders of ASEAN and six other nations (China, India, Japan, S Korea, Australia and New Zealand, agreed to launch a study on a Comprehensive Economic Partnership in East Asia (CEPEA) among EAS participants. An underlying ambition was the establishment of an ASEAN + 6 FTA.

Advantages	Disadvantages
• Economic Growth • Diverse Knowledge • Infrastructure Development • Market Access	• Complexity • Differing Interest • Competitive Pressure • Implementation Challenges

Purpose:

- An economic partnership of the members of the Association of Southeast Asian Nations and ASEAN+6 group, would accelerate economic growth in East Asian countries, promote cooperation in energy, foods, and other fields vital to economic activities, and in other ways greatly benefit Japan and the region's other countries.
- ASEAN integration with ASEAN + 6, is to increase the capacity of the Group to invest in the commercial potential, and can compete with other regions also preparing to launch free trade agreement.

ASEAN Trade in Goods Agreement

- It is an improvement over the agreement on the common effective preferential Tariff (CEPT) scheme of the ASEAN free trade area (AFTA) The Asean Trade in Goods Agreement (ATIGA) consolidates into comprehensive agreement existing initiatives obligations and commitments by the AMS with regard to both trade in goods (TARIFF) and (NON-TARIFF) elements

Objective

  - ATIGA seeks to achieve free flow of goods in ASEAN as one of the principal means to establish a single market and production base for the deeper economic integration of the region towards the realization of the ASEAN Economic Community by 2025.
- **ATIGA was signed on February 26, 2009 and entered into force on May 17, 2010**

What are the exclusions/exceptions allowed under the ATIGA?

a. **General Exceptions** - Member States may exclude a product which it considers necessary to:
   - Protect public morals;
   - Protect insor export on or sted or siver.
   - Importations or exportations of gold or silver;
   - Secure compliance with laws or regulations which are not inconsistent with the provisions of the Agreement including those relating to customs enforcement, the enforcement of monopolies operated under paragraph 4 of Article II and Article XVII of the General Agreement on Tariffs and Trade (GATT) 1994, the protection of patents, trademarks and copyrights, and the prevention of deceptive practices;

b. **Security Exceptions**
   - To require any Member State to furnish any information, the disclosure of which it considers contrary to its essential security interests;

- To prevent any Member State from taking any action which it considers necessary for the protection of its essential security interests: or
- To prevent any Member State from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.

- **It was effectively in ATIGA, certain ASEAN Agreements Relation to trade in goods such as the CEPT Agreement and Selected Protocols were superseded**

What are the rights and obligations of a Member State concerning trade remedy measures?

- Safeguard measures Member states affirm their rights and obligations under article XIX of GATT 1944, And the agreement on safeguards on article 5 of the agreement of agriculture.
- Anti-Dumping and Countervailing Duties. Member states affirm their rights and obligations with respect to each other relating to the application of anti-dumping under article VI GATT 1994

- **Each member state undertakes bot to introduce tariff rate quotas on the importation of any goods originating in other member states or on the exportation of any goods destine for the territory of the other member states.**

What are the programs of tariff reduction or elimination of import duties?

- Member States shall eliminate import duties on all products traded between the Member States by 2010 for ASEAN-6 (i.e., Brunei, Indonesia, Malaysia, Philippines, Thailand, and Singapore) and by 2015, with flexibility to 2018, for Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV).
- Each Member State shall reduce and/or eliminate import duties on originating goods of the other Member States in accordance with the following modalities under Annex 2 (Tariff Schedules) of ATIGA.

EUROPEAN FREE TRADE ASSOCIATION

- It is the intergovernmental organization of Iceland, Liechtenstein, Norway, and Switzerland. It was set up in 1960 by its then seven Member States for the promotion of free trade and economic integration between its members in Europe and around the world.
- The EFTA countries have developed one of the largest networks of Free Trade Agreements (FTAs). These FTAs span over 60 countries and territories, including the EU.
- EFTA's highest governing body is the EFTA Council. It generally meets 8 times a year at ambassadorial level and twice a year at ministerial level.
- The headquarters of the EFTA Secretariat are located in Geneva, with offices in Brussels and Luxembourg. The Secretariat in Geneva assists the EFTA Council in the management of relations between the 4 EFTA States, and deals with the negotiation and operation of EFTA's FTAs and Joint Declarations on Cooperation with non-EU countries.

7 Founding Countries

1. Austria
2. Denmark
3. Norway
4. Portugal
5. Sweden
6. Switzerland
7. United Kingdom

Main Economic Sectors

- **Switzerland & Liechtenstein**: banking hub, pharmaceuticals, machinery, watch making, services
- **Norway:** oil, natural gas, services (maritime transport), shipbuilding, machinery, fish farming, fish production
- **Iceland:** fish production, maritime transport, services

History

- It was established in January 1960, through the signing of a trade agreement at the Stockholm Convention held in the Prince's Palace in Stockholm, Sweden. Its establishment was in response to the exclusion of its founding members from the European Economic Community, which later developed into the present-day European Union.
- One of the first benefits established by the EFTA was the removal of customs or taxes on industrial goods. This removal was not immediate, but rather took place over a specified timeline. Although similar in intent and function, the EEC and EFTA did have one initial principal difference.
- The EFTA, for example, allowed its member nations to negotiate trade agreements with non-member countries independently. Each member held varying customs duty agreements with other nations.

Key Figures:

- The four EFTA States are open, developed economies with trade figures that are substantially higher than might be expected from a total of less than 14M people. In 2021, EFTA was the 10th largest trader in the world in merchandise trade and the eighth largest in trade in services. It is also among the most important trading partners in goods and services for the EU.

Free Trade Agreement Example

- Goods: free trade in industrial products including fish and processed agricultural products
- Possible non-application of anti-dumping measures
- Liberalization of trade in some basic agricultural products (bilateral)
- Trade in Services (bilateral commitments)
- Investment (Establishment / Protection)
- Intellectual property rights
- Government procurement
- Competition
- Dispute settlement and administration

Functioning of EFTA

- EFTA functions as a free trade zone. The EFTA Secretariat, which has headquarters in Geneva (Switzerland) and Brussels (Belgium), governs it. Its operations are governed by the EFTA Surveillance Authority (the EU Commission's equivalent) and the EFTA Court (the European Court of Justice's equivalent). As these agencies regulate EFTA's activity in the European Economic Area, Switzerland has no role in the Surveillance Authority or the court.

Objectives:

- to eliminate almost all tariffs among member countries
- abolish the trade restrictions regarding imports and exports of goods among member countries
- to enhance economic development, employment, incomes, and living standards of the people of the member countries
- to enable free trade in Western Europe

3 Main Responsibilities

1. to regulate economic relations between the EFTA member state
2. to manage the European economic agreement which extent EU (European Union) in turn of markets to Iceland, Liechtenstein, and Norway
3. to develop the EFTA worldwide network of free trade agreements and ensure rights for business and people

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PHILIPPINES-JAPAN ECONOMIC PARTNERSHIP AGREEMENT (PJEPA)

- The Japan-Philippines Economic Partnership Agreement is an economic partnership agreement concerning bilateral investment and free trade agreement between Japan and the Philippines
- It was signed in Helsinki, Finland on September 9, 2006, by Japanese Prime Minister Junichiro Koizumi and Philippine President Gloria Macapagal Arroyo

Japan, on the other hand, has signed FTAs with six economies

(**Singapore, Mexico, Malaysia, Indonesia, the Philippines, Thailand, and Brunei**) and is on various phases of FTA negotiations with other three economies (**South Korea, Vietnam, and India**).

Objective

- To promote a freer trans-border flow of goods, persons, services and capital between the Philippines and Japan thereby reinforcing the existing economic relation of the two countries. The General Provisions contain the fundamental principles and basic rules for such economic partnership.

Coverage

- Trade in goods
- Trade in services
- Investments
- Movement of Natural Persons (MNP)
- Intellectual Property (IP)
- Government Procurement (GP)
- Competition
- Improvement of Business Environment (IBE)

1. **Trade in Goods**
   - Tariffs of industrial products and agriculture, forestry, and fishery products will be eliminated or reduced comprehensively
2. **Trade in Services**
   - Both sides will, for the purpose of enhancing transparency, make a list providing all measures inconsistent with Market Access and National Treatment. Both sides will be committed to standstill obligations in many service sectors and to liberalizations in specific service sectors.
3. **Investments**
   - The Agreement will include provisions concerning National Treatment, Most-Favored-Nation Treatment and Performance Requirement Prohibitions for the liberalization of investment and enhance transparency by specifying all exceptions to these provisions. Furthermore, provisions concerning protection of investment will also be included in the Agreement.
4. **Movement of Natural Persons**
   - The Japanese side will allow entry of Filipino candidates for qualified nurses and certified care workers that satisfy certain requirements and will allow them to work, after completing training of Japanese language and others, as preparation for obtaining national licenses, on the assumption that the Philippine side will provide a similar framework to meet the Japanese interest.
5. **Intellectual Property**
   - The Agreement will include cooperation elements and appropriate protection and enforcement elements. Both sides will also conduct consultations for the purpose of enhancing protection and enforcement of intellectual property through consultation mechanism.
6. **Government Procurement**
   - JPEPA opens up the possibility of liberalizing Philippine government procurement markets by granting national treatment and most-favored-nation treatment to Japanese goods, services, and suppliers
7. **Competition Policy**
   - Both sides will take appropriate measures to promote competition by addressing anti-competitive activities and cooperate in the field of competition.
8. **Improvement of Business Environment**
   - In order to further promote bilateral trade and investment, both sides will cooperate to improve business environment in both countries. For this purpose, a framework for consultations will be set up, such as a committee on business environment where representatives from private sector can participate.

Benefits from implementation of PJEPA

- Upon the entry of force of the PJEPA in 2008, balance of trade gradually improved in favor of the Philippines.
- The Philippines-Japan Economic Partnership Agreement (PJEPA) has resulted in a significant surge in approved investments from Japan, increasing by 146.7% from PHP 117.83 million to PHP 438.64 million. In 2019, Japan ranked as the 4th largest contributor to approved foreign investments in the Philippines, totaling PHP 19.89 million.
- For movement of natural persons (MNP), Japan has historically maintained very restrictive entry requirements for foreign professionals. In 2001-2006, the only occupational categories Filipinos were able to substantially fill were choreographers and dancers and composers, musicians and singers – deployed OFWs, respectively. With the entry of the PJEPA, Filipino nurses and care workers were allowed entry to Japan.

Advantages	Disadvantages
• JPEPA is expected to increase investment in the Philippines since it provides greater certainty and confidence for Japanese investors • JPEPA is also expected to increase our exports to Japan, Philippines' second largest export market, due to a broader range of agricultural and industrial products that will be allowed under the treaty • Under JPEPA, Filipino nationals would be allowed to practice their profession in Japan subject to certain conditions. In the immediate future, at least two groups of Filipino professionals are expected to benefit from JPEPA: Filipino health professionals (nurses and care workers) and seafarers	• Displacement of affected local industries • Foregone government revenues. Another important issue with any FTA is the foregone revenues due to the removal of tariffs • Whether Japan would be an attractive market for Filipino nurses and caregivers remains unclear given stringent Japanese requirements (e.g. language proficiency) and the existence of other more lucrative markets for nurses such as US and UK